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C O N F I D E N T I A L SECTION 01 OF 02 HARARE 000322

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ADDIS ABABA FOR USAU
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STATE PASS TO USAID FOR E.LOKEN
STATE PASS TO NSC FOR SENIOR AFRICA DIRECTOR B.PITTMAN

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TAGS: [PREL](#) [PGOV](#) [ECON](#) [ETRD](#) [ZI](#)
SUBJECT: ZIMBABWE,S STRUGGLING FERTILIZER INDUSTRY

Classified By: Ambassador Christopher Dell under Section 1.4 b/d

Summary

11. (C) Battered by adversities, fertilizer production in Zimbabwe sunk last year to its lowest level since 1972. Sable Chemical Industries Ltd, the main producer, has been operating at 40-50 percent capacity for the past year due to foreign exchange shortages and price controls. It is also struggling with the steady loss of engineers and skilled workers to emigration. In order to boost production before next year's growing season, an executive with the company said the Reserve Bank of Zimbabwe (RBZ) had secured a loan from China and was about to renew a separate offshore loan facility to finance the import of production inputs. End Summary.

Industry Meltdown

12. (C) Joe Munduru, General Manager of Sable Chemical Industries Ltd confirmed March 25 that fertilizer production in Zimbabwe last year sunk to its lowest level since 1972. He said the company had been operating at a loss since July 2006 for lack of foreign exchange and due to price controls. Since early 2006, production had been only 40-50 percent of the plant's 240,000 ton capacity. The cost of plant maintenance had increased 2000-4000 percent in the past 2-3 months alone, which the general manager blamed on RBZ Governor Gono,s threat of an imminent price freeze. Once TA Holdings' cash cow, Sable Chemical Industries had not paid a

dividend since 2004. Munduru embarrassingly remarked that against all good principles, Sable had recently taken out its first ever commercial loan (at 360 percent interest) to finance its loss-making operation.

¶3. (SBU) Munduru said the company was also vexed by the challenge of staff retention. Monthly take home pay for a section engineer had sunk to about Z\$900,000 (roughly US\$45 at the parallel exchange rate), and the workforce of about 545 was, not surprisingly, "restive." Not a single engineer below the level of the executive engineer had been with Sable for more than a year. As soon as its engineers or skilled workers were well trained, Munduru said the plant lost them to South Africa.

GOZ,s Band-Aids

¶4. (C) Munduru said the RBZ had told him they had secured a loan from "the Chinese" to import 10,000 tons of ammonia from South Africa for production of ammonium nitrate fertilizer. Sable, Zimbabwe's sole manufacturer of ammonium nitrate, would produce the fertilizer on commercial terms under contract with the RBZ. If the RBZ actually followed through, Munduru said imported ammonia could yield 20,000 tons of ammonium nitrate which, along with Sable,s own ammonia production of 4,000 tons per month, could make "a big dent" in Zimbabwe's fertilizer requirements for the winter wheat crop. He added the RBZ had also said it expected to renew an offshore loan facility with an unnamed bank by March 31 which would enable it to release a further US\$3.5 million to the fertilizer industry.

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¶5. (C) However, Munduru cautioned that the RBZ was an unreliable partner for his industry in particular and business in general. The RBZ had reneged on a three-part stabilization agreement reached with the industry in late ¶2006. The Bank had agreed to quarterly increases in the controlled price of fertilizer starting in January; 20 percent of fertilizer production was to be available for export with retention by the producer of all foreign exchange proceeds; and the RBZ would kick start production by releasing US\$7 million. To date, however, the fertilizer price remained frozen; the RBZ has not issued any fertilizer export licenses; and it has only released US\$3.5 million.

Comment

¶6. (C) Loans to the fertilizer industry from "the Chinese," or from anyone else for that matter (assuming they do indeed come through), will at best be a short-term reprieve for an ailing industry. Until the GOZ addresses the structural problems, in particular, price distortions, at the root of the industry,s malaise, neither the fertilizer industry nor the related agricultural sector will begin to recover.

DELL